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BEFORE THE ARIZONA CORPORATION COMMISSION
AZ CORP COMMISSION
DOCKET CONTROL

COMMISSIONERS

GARY PIERCE, Chairman
PAUL NEWMAN
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BOB STUMP
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2012 JUN 15 AM 10 46

IN THE MATTER OF THE REVIEW AND
POSSIBLE REVISION OF ARIZONA
UNIVERSAL SERVICE FUND RULES,
ARTICLE 12 OF THE ARIZONA
ADMINISTRATIVE CODE.

DOCKET NO. RT-00000H-97-0137

IN THE MATTER OF THE INVESTIGATION OF
THE COST OF TELECOMMUNICATIONS
ACCESS.

DOCKET NO. T-00000D-00-0672

REPLY COMMENTS CONCERNING IMPACT OF CAF ORDER

BY

ARIZONA LOCAL EXCHANGE CARRIERS ASSOCIATION

The Arizona Local Exchange Carriers Association ("ALECA") hereby provides the following comments in reply to the comments filed by the other parties on May 15, 2012.

The Commission's Role in Implementation and Future Reform

ATT maintains that the Commission should address originating access reform prior to the FCC taking action.¹ In sharp contrast, every other party that filed comments agreed that the Commission should not act on originating access prior to FCC action, if at all.

A pending FCC FNPRM will address originating access and will consider how to minimize any additional customer burden.² The Commission should not engage in addressing originating access before the FCC completes its tasks, since doing so may inadvertently be harmful to consumers and carriers. Once the FCC FNPRM is completed, there may be no need at all for further Commission action concerning originating access.

¹ ATT Comments, pp. 6-7.

² CAF/ICC Order ¶ 1301)

Arizona Corporation Commission

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1 The Commission should not take action that does less for consumers through burdensome
2 implementation of originating access reductions. To the extent the FCC determines that there
3 will be some amount of recovery from the CAF, this will mitigate the impact upon local rates.
4 The Commission acting prematurely could result in a loss of CAF recovery and place an
5 additional burden on Arizona consumers. ALECA emphasizes its original position that the
6 existing Commission docket on access reform should be closed.

7 ATT and Sprint recommend the Commission establish procedures to implement intrastate
8 access reform and require LECs to file specific data in support of proposed reductions.³ The
9 new FCC rules contain detailed instructions for the transition of rate-of-return and price cap
10 carrier's access charges from their current levels to bill and keep.⁴ The Commission does not
11 need to adopt any new rules or procedures, issue any data requests, or take any other actions
12 prior to July 3, 2012, the date that the first access reductions of the FCC's USF/ICC Order
13 become effective. As recently as June 5, 2012, the FCC's Wireline Bureau has confirmed that
14 incumbent local exchange carriers ("ILECs") have significant discretion as to which switched
15 access rate structure (interstate or intrastate) they employ, and as to which particular intrastate
16 terminating access rate elements they reduce and how much they reduce them, in order to
17 comply with the intrastate terminating access reductions required by the FCC. Given this
18 flexibility, the Commission Staff is more than capable to process all related intrastate access
19 tariff filings required to insure compliance with the FCC's order.

20 Sprint maintains the CAF Recovery Mechanism (RM) eliminates any consideration for
21 AUSF expansion.⁵ The impact of the *USF/ICC Order* upon ALECA members makes the AUSF
22 critical, as a mechanism to provide support to ALECA members that predominately serve high
23 cost areas in Arizona. Existing federal support is being cut, capped, or eliminated: Nationwide,
24 Rural Local Exchange Carriers (RLECs) received approximately \$2.0 billion in federal high-cost

³ ATT Comments, pp. 8-13; Sprint Comments, pp. 5-8.

⁴ 41 C.F.R §§ 51.907, 51.909

⁵ Sprint Comments, p. 8.

1 support during 2011, and they will have a “target budget” of \$2.0 billion in federal high-cost
2 support for at least the next three-to-five years. This “target budget” contains no increase in
3 high-cost support to enable RLECs to extend and upgrade their existing broadband networks.

4 RLEC high-cost support is further reduced by:

- 5 1. Extending the corporate operations expense cap to ICLS as well as HCLS;
- 6 2. Eliminating future Safety Net Additive (“SNA”) support;
- 7 3. Establishing a monthly \$250 per line cap on an RLEC’s aggregate high-cost support;
- 8 4. Imposing quantile regression limitations on capital expenditures and operating
9 expenses; and
- 10 5. Perhaps in the future, reducing the interstate rate of return.

11 **The Case for Additional AUSF Funding**

12 In making both short-term and long-term decisions regarding the USF/ICC Order and
13 related matters, the Commission should adopt some guiding principles. ALECA suggests that
14 such principles include:

- 15 1. Recognition that ALECA members have a proven and sustained record of providing
16 quality and affordable telecommunications services to many of the high-cost and
17 sparsely populated rural portions of Arizona;
- 18 2. Acknowledgement that the public telecommunications network is evolving from a
19 voice to a higher-and-higher-capacity broadband network that will have major
20 impacts upon the future welfare of Arizona, including critical influence upon
21 economic development, education (including distance learning) and health care
22 (including telemedicine); and
- 23 3. Realization that ALECA companies have done a good job to date in deploying quality
24 voice and broadband services but will need to make substantial additional
25 investments to upgrade their broadband networks in order to offer the high-capacity
26 broadband services needed to permit their rural Arizona customers to participate
27 actively in the 21st Century economy and society.

1 **Conclusion**

2 The USF/ICC Order will significantly reduce ALECA member's inter-carrier revenues.
3 Inter-carrier compensation rates, billed on a minutes of use basis, are generally higher in rural
4 areas to recover the higher costs of providing service in those areas. For the year ending
5 December 31, 2011, inter-carrier compensation generally accounted for over half of the ALECA
6 member's total revenues. The FCC has created an access recovery mechanism to recover a
7 portion of these lost revenues. The recovery mechanism is temporary and will eventually be
8 eliminated. The end result will be a massive reduction in revenue and operating cash flow for
9 ALECA companies with no federal offset. Rural customers will be impacted by higher local
10 rates and all ALECA members will struggle to generate operating capital to continue upgrading
11 and maintaining the facilities required to meet the ever increasing demand for broadband
12 services.

13 While ALECA members support closing the Access Docket, they continue to
14 emphatically oppose closing the AUSF Docket. The Commission needs to play a critical role in
15 making sure that ALECA members have the revenue streams (including sufficient AUSF
16 support) necessary to preserve, extend and upgrade their broadband networks and services.
17 Indeed without alternative revenue streams, some RLECs may not survive.

18 RESPECTFULLY SUBMITTED on June 15, 2012.

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23 Craig A. Marks
24 Craig A. Marks, PLC
25 10645 N. Tatum Blvd., Ste. 200-676
26 Phoenix, Arizona 85028
27 (480) 367-1956 (Direct)
28 (480) 367-1956 (Fax)
29 Craig.Marks@azbar.org
30 Attorney for ALECA

Original and 15 copies filed
on June 15, 2012, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Copies of the foregoing mailed on
June 15, 2012, to:

Jane L. Rodda
Administrative Law Judge
Arizona Corporation Commission
400 W. Congress Ave, Ste. 218
Tucson, AZ 85701-1347

Thomas Bade, President
Arizona Dialtone, Inc.
6115 South Kyrene Road
Tempe, AZ 85283

Brad VanLeur, President
OrbitCom, Inc.
1701 North Louise Avenue
Sioux Falls, SD 57107

1
2 **Copies of the foregoing e-mailed on**
3 May 15, 2012, to:
4

Maureen A. Scott, Senior Staff Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007
mscott@azcc.gov

Steve Olea, Director
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007
ejohnson@acc.gov

Michele L. Wood
Residential Utility Consumer Office
1110 West Washington, Suite 220
Phoenix, AZ 85007
mwood@azruco.com

Lyndall Nipps
Vice President, Regulatory
Time Warner Telecom
845 Camino Sur
Palm Springs, CA 92262
Lyndall.Nipps@twtelecom.com

Dan Foley
AT&T Nevada
645 East Plumb Lane, B132
P.O. Box 11010
Reno, NV 89520
dan.foley@att.com

Thomas Campbell
Michael Hallam
Lewis and Roca, LLP
40 North Central Avenue
Phoenix, AZ 85004
tcampbell@lrlaw.com
mhallam@lrlaw.com
Attorneys for Verizon

Michael Grant
Gallagher & Kennedy
2575 E. Camelback Road
Phoenix, AZ 85016
mmg@gknet.com
Attorneys for AT&T

Michael W. Patten
Roshka DeWulf & Patten, PLC
One Arizona Center
Phoenix, AZ 85004
mpatten@rdp-law.com

Joan S. Burke
1650 N. First Avenue
Phoenix, Arizona 85003
joan@jsburkelaw.com
Attorney for XO Communications Services, Inc.

Mark A. DiNunzio
MS DV3- 16, Building C
Phoenix, AZ 85027
Mark.dinunzio@cox.com

Catherine A. Murray, Manager
Integra Telecom, Inc.
6160 Golden Hills Drive
Golden Valley, MN 55416
camurray@integratelecom.com

Dennis D. Ahlers
Associate General Counsel
Integra Telecom
6160 Golden Hills Drive
Golden Valley, MN 55416
ddahlers@integratelecom.com

Scott S. Wakefield
Ridenour, Hienton & Lewis, P.L.L.C.
201 N. Central Avenue, Suite 3300
Phoenix, AZ 85004- 1052
sswakefield@rhkl-law.com

Gregory L. Castle, Esq.
AT&T Services, Inc.
525 Market Street
San Francisco, CA 94105
gc1831@att.com

Charles H. Carrathers, III
General Counsel, South Central Region
Verizon, Inc.
HQE03H52
600 Hidden Ridge
Irving, TX 75015
chuck.carrathers@verizon.com

Arizona Payphone Association
c/o Gary Joseph
Sharenet Communications
4633 West Polk Street
Phoenix, AZ 85043
garyj@nationalbrands.com

Nathan Glazier, Regional Manager
Alltel Communications, Inc.
4805 East Thistle Landing Drive
Phoenix, AZ 85044
nathan.glazier@alltel.com

William A. Haas
Deputy General Counsel
6400 C Street SW
Cedar Rapids, Iowa 52406
Bill.Haas@mcleodusa.com

W. John Hayes, General Manager
Table Top Telephone Company, Inc.
600 N. Second Ave.
Ajo, AZ 85321
jhayes@tabletoptelephone.com

Norman G Curtright, Esq.
Qwest Corporation
20 East Thomas Road, 16th Floor
Phoenix, AZ 85012
Norm.Curtright@qwest.com

Stephen H. Kukta
Sprint Nextel
201 Mission Street, Suite 1500
San Francisco, CA 94 105
stephen.h.kukta@sprint.com

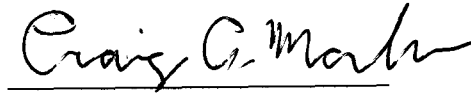
Patrick J. Black
Fennemore Craig
3003 N. Central Ave. Suite 2600
Phoenix, AZ 85012-2913
pblack@fclaw.com

Karen E. Nally
Law Office of Karen E. Nally
3420 E. Shea Blvd., Suite 200
Phoenix, Arizona 85028
knallylaw@cox.net

Reed Peterson
Qwest Corporation
20 East Thomas Road, 16th Floor
Phoenix, AZ 85012
Reed.Peterson@Qwest.com

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2
3
4

By:


Craig A. Marks